



**भारतीय रिज़र्व बैंक**

**RESERVE BANK OF INDIA**

वेबसाइट : [www.rbi.org.in/hindi](http://www.rbi.org.in/hindi)

Website : [www.rbi.org.in](http://www.rbi.org.in)

ई-मेल email: [helpdoc@rbi.org.in](mailto:helpdoc@rbi.org.in)

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

November 26, 2013

### **Self Regulatory Organization (SRO) for NBFC-MFI**

The Reserve Bank of India had appointed a Sub-Committee of its Central Board of Directors, under the Chairmanship of Shri Y. H. Malegam, to study the issues and concerns in the microfinance sector in so far as it relates to entities regulated by the Reserve Bank. One of the suggestions of the Committee pertained to industry associations assuming greater responsibility in ensuring compliance by the Non-Banking Financial Companies that are engaged in microfinance (NBFC-MFIs), to the regulations. The broad framework of regulations, recommended by the Committee, including that of putting in place a self regulatory structure for the sector, was accepted by the Reserve Bank and a detailed regulatory framework for NBFC-MFIs microfinance, was put in place vide directions dated December 02, 2011. The directions also stated that separate guidelines will be issued on the role of industry associations in the overall monitoring of the microfinance sector.

To give effect to the recommendation of the Sub-Committee on formation of industry associations, to ensure effective monitoring of the functioning of NBFC-MFIs, their compliance with the regulations and code of conduct and in the best interest of the customers of the NBFC-MFIs, the Reserve Bank has decided to accord recognition to industry associations as SRO of NBFC-MFIs. The membership of NBFC-MFIs in the industry association/SRO will be seen by the trade, borrowers and lenders as a mark of confidence and removal from membership will be seen as having an adverse impact on the reputation of such removed NBFC-MFIs. While membership to the SRO is not mandatory, NBFC-MFIs are encouraged to voluntarily become members of at least one SRO.

The SRO holding recognition from the Reserve Bank will have to adhere to a set of functions and responsibilities, such as formulating and administering a Code of Conduct recognized by the Bank, having a grievance and dispute redressal mechanism for the clients of NBFC-MFIs, responsibility of ensuring borrower protection and education, monitoring compliance by NBFC-MFIs with the regulatory framework put in place by the Reserve Bank, surveillance of the microfinance sector, training and awareness programmes for the members, Self Help Groups, etc and submission of its financials, including Annual Report, to the Reserve Bank. The minimum responsibilities of the SRO towards the microfinance sector and the Reserve Bank is given in Annex I. The same may be modified by the Reserve Bank from time to time to improve the efficiency of the sector.

Interested parties are required to apply to the Reserve Bank, seeking recognition as SRO and furnish all details as per Annex I, to the Principal Chief General Manager, Department of Non-Banking Supervision, Central Office, World Trade Centre, Cuffe Parade, Mumbai-400 005.

The recognition of the SRO by the Bank will be communicated by letter giving the detailed terms and conditions and other obligations associated with the recognition.

**Ajit Prasad**

Assistant General Manager

**Self – Regulatory Organization for NBFC-MFIs – Criteria for Recognition**

- i. The SRO should have at least 1/3<sup>rd</sup> of the NBFC-MFIs registered as its members, at the time of recognition.
- ii. It should have adequate capital to be able to discharge its functions without being overly dependent on subscription from members.
- iii. The memorandum / bye laws of the Self-Regulatory Organization (SRO) should specify criteria for admission of members and the functions it will discharge, as one of its main objects;
- iv. The Memorandum / bye laws of an SRO should provide for the manner in which the Governing Body / Board of Directors of the SRO would function.
- v. The Board should have adequate representation from both large and small NBFC-MFIs.
- vi. 1/3<sup>rd</sup> of the Board of Directors should be independent and not associated with member institutions.
- vii. The Board of Directors and individuals comprising the management should be considered fit and proper, by the Reserve Bank.
- viii. It should have adequate internal controls in place.
- ix. The SRO should function in the interest of all the stake holders and not seen to be only an industry body.
- x. The SRO should frame a Code of Conduct to be followed by its members.
- xi. It should have a Grievance Redressal Mechanism and a Dispute Resolution Mechanism in place, including a specially appointed Grievance Redressal Nodal Officer.
- xii. It should be in a position to exercise surveillance over its members to ensure compliance with the Code of Conduct and regulatory prescriptions of the Bank through an Enforcement Committee
- xiii. It should also have a developmental function of training and awareness programmes for its members, for the Self Help Groups and conduct research and development for the growth of the MFI sector

**Obligations of the SRO towards the Reserve Bank**

- i. The SRO, once recognized, will need to nominate a Compliance officer who will directly report to the Reserve Bank and who will keep the Reserve Bank regularly posted of all developments in the sector.
- ii. The SRO will have to submit its Annual Report to the Reserve Bank.
- iii. It will have to conduct investigation into areas of concern as pointed out by the Reserve Bank.
- iv. The SRO shall inform the Reserve Bank of the violations of the provisions of the Act, the directions, the circulars or the guidelines issued by the Reserve Bank from time to time, by any of its members.
- v. It shall provide information, including data, to the Reserve Bank periodically or as requested for by the Bank.
- vi. The Reserve Bank shall, if need arises, inspect the books of the SRO or arrange to have the books inspected by an audit firm.